



# POLITICO

## Missed chance: Obama's tax problem

By: [Jim VandeHei](#) and [Mike Allen](#)  
March 12, 2013 08:34 PM EDT

President Obama faces huge, and probably insurmountable, obstacles to reviving a grand bargain — none higher and more difficult to overcome than his decision to increase [taxes](#) by \$600 billion in December.

At the time, Obama claimed victory, slapping new taxes on the rich while protecting George W. Bush's cuts for everyone else. In retrospect, it looks more like a missed opportunity than a political or policy triumph.

Instead, it now seems likely that \$600 billion in tax increases is all the new revenue Obama gets. That's a far cry from the \$1.6 trillion he wants, or even the \$1 trillion-plus many Republicans were discussing in previous grand bargain talks.

(Also on POLITICO: [Key takeaways from dueling budgets](#))

Obama thought he would be able to stare down Republicans over the sequester, and get them to double the size of his tax increase to avoid heavy defense cuts. He was wrong. Once Republicans swallowed the \$600 billion in hikes, they made plain they were done raising taxes for this Congress. And they really are done, Republicans say.

This is the biggest reason top Democrats and Republicans alike tell us talk of a grand bargain this time around is way overhyped — though, as our colleagues Jake Sherman and Carrie Budoff Brown [wrote last week](#), Obama's recent charm offensive shows he knows he now needs a sweeping deal more than ever.

"Nobody is even talking about a grand bargain," one of the Senate's most influential Democratic leadership aides told us. "It is not even on our radar right now." An adviser to Speaker John Boehner told us that window was slammed shut by Obama's hardball tactics since the tax hike. "He missed the chance."

(Also on POLITICO: [More from Behind the Curtain](#))

Another reason is the rancid relationship between Obama and Republicans on the Hill. House Majority Whip Kevin McCarthy (R-Calif.), the third-ranking House Republican, told us about an exchange he had with Obama at Saturday night's white-tie [Gridiron dinner](#). During a break in the program, McCarthy saw an empty chair next to Obama and decided to seize the chance. Surprised Obama wasn't working the room, and thinking the president really is a loner, McCarthy walked up to the head table. He found the president was reading his BlackBerry.

"I'm waiting for my dinner invitation," the Republican joshed to Obama, referring to the president's recent evening out with Republican senators. "I listen to Paul," Obama replied, according to McCarthy, referring to House Budget Chairman Paul Ryan. Then, in what McCarthy took as a reference to a political charm offensive, he recalled Obama saying, "You guys give us too much credit. We're not doing all that stuff you think we are." As told by McCarthy, Obama then said that if Republicans are going to get entitlement reform, "You need me." As McCarthy walked away, the congressman thought: "He's still a law professor. He'd rather lecture you and put a red mark on your paper than talk to you."

Sen. Rob Portman (R-Ohio) said he assumes Obama is sincere. "Republicans should be

...willing to engage,” Portman said. “There’s an understandable skepticism, because the president has been on the campaign trail since the election. But my conversations with him and his staff indicate that they are interested in finding a way forward. The worst that could happen is we find out they’re not sincere.”

The truth is Obama has lost some leverage — and needed a bunch of high-profile meetings with adversaries to swat away reports that he’s too stubborn and too political. But, in private, nothing has really changed.

As for the grand bargain, which could always happen if lightning strikes in these meetings and common ground emerges, the trade-off has always been simple and clear: Republicans swallow tax increases; Democrats swallow an equal amount of entitlement cuts.

Obama would have to persuade Republicans to vote for a tax increase for the second time in less than one year. Can you imagine Boehner and his troops heading into the 2014 midterm elections dominated by conservative activists having to explain, not one, but two increases? They ate \$600 billion in defense cuts that a majority of Republicans wish they could undo rather than discuss even a tiny tax increase. Hard to see them budging now.

Sen. Lindsey Graham (R-S.C.) says he can envision such a scenario if Democrats put specific entitlement cuts on the table. But, top House GOP officials tell us that is nuts. The prevailing view among House Republicans is that they have finally won the cuts they spent years fighting for and see little reason to tick off senior voters by cutting entitlements while also ticking off the base with new taxes. In truth, many Republicans aren’t very motivated themselves to start messing with entitlements if they don’t have to.

Top Democrats and Republicans sketched out for us what a deal would and could look like if relations were not so bad. It would go like this: Both sides would agree to keep the \$1.2 trillion in total domestic spending cuts included in the sequester but reorder the programs that get hit and delay the biggest changes until the economy recovers in a year or two. Republicans would agree to raise new revenue through tax reform in exchange for an equal amount of entitlement cuts that do not begin until 2023 and beyond. Because neither side wants to take any chances right now, the number both sides could match would probably be \$400 million or so, give or take.

“The GOP has no chance at any of the entitlement reform they claim to want if they won’t compromise on revenues,” a White House official warned. “That’s the only deal available to them.”

© 2013 POLITICO LLC